

# **SCHOOL BUSINESS ALERT**

**Special School GAAP Edition**

**May 1996**

**Pursuant to Chapter 257.31(4) of the Code of Iowa, school districts and area education agencies must implement procedures in conformity with generally accepted accounting principles (GAAP), commencing with the school year beginning July 1, 1996 (fiscal 1997). Legislation does not require that you budget on a GAAP basis.**

**This SPECIAL GAAP EDITION of the SCHOOL BUSINESS ALERT has been prepared in conjunction with the OFFICE OF THE AUDITOR OF STATE. The answers to your questions represent our collective responses to the questions you have asked our departments.**

**PLEASE NOTE: Our responses have been prepared for those districts that budgeted on a non-GAAP (cash) basis with a conversion to GAAP basis for official financial reporting.**

## **GENERAL QUESTIONS**

1. **QUESTION:** What accounts should we have on our balance sheet? Give us a balance sheet with the exact account titles and account numbers you want us to have so we all have the same.

**ANSWER:** The Revised, May, 1994, Uniform Financial Accounting Manual for Iowa LEAs and AEAs, prepared by the Iowa Department of Education, includes detailed account numbers and titles to be used by each district in accounting for and reporting financial transactions and account balances. Specifically, pages 88 through 93 of this manual provide a detailed list of balance sheet accounts (numbers and titles) to be used.

Also, the Certified Annual Report (CAR) provides an example of the minimum amount of information, including account titles and codes, required to be included on the balance sheet for every fund type.

If your district does not have a copy of the above referenced manual, a copy may be obtained from the Iowa Department of Education (515-281-4729).

2. **QUESTION:** How can I not have a lot of outstanding accounts payable at the end of June? If we type purchase orders in May, but indicate we will not accept invoice or goods until after July 1, I don't have to count them as payables at June 30, do I?

**ANSWER:** No, the above items would not be included as accounts payable at June 30, if they have not been physically received by then. By definition, accounts payable is a short-term liability account reflecting amounts owed to persons or organizations for goods and services received by a government by June 30, but not paid for until after June 30. In the above situation, the goods have not been physically received by June 30 and therefore, there is no liability to the district at June 30. If, however, some of those goods happen to be received by June 30 and the district does not pay for them until after June 30, the cost related to them would need to be accrued as an accounts payable, regardless of any notice written on the purchase order.

3. **QUESTION:** What is the correct way to handle extra-curricular resale items? Should we collect sales tax on these items?

**ANSWER:** Expenditures are inventory and you should handle them following the inventory information provided in the INVENTORIES section of this article. If actually related to student activities, then account for them in the Special Revenue, Student Activity Fund. If related to curricular activities/classes (i.e., art, industrial arts, music, home economics...), they should be accounted for in the General Fund.

In addition, according to Jim Moyle with the Department of Revenue and Finance, districts need not collect sales tax on resale items if they are being used for educational purposes.

4. **QUESTION:** Do we have to report outstanding purchase orders as an encumbrance? The principals would like to mail their purchase orders for 96/97 about the middle of June.

**ANSWER:** Encumbrances are defined as "Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are complete."

The operative phrase in this definition is "Used in budgeting, encumbrances are not GAAP (or non-GAAP) expenditures or liabilities". Encumbrance accounting, for budgetary purposes, may be useful to keep track of commitments, but it is not required. Whether and when you mail purchase orders and/or enter into contracts will not affect your expenditures and liabilities, and accordingly, should not adversely affect your certified budget or spending authority. If encumbrance accounting is utilized, once the purchase order or contract is fulfilled (in the subsequent fiscal/budget period), the encumbrance is removed and the expenditure is then reported.

5. **QUESTION:** Should we select 30, 60 or 90 days past fiscal year end for revenue/expenditure recognition?

**ANSWER:** We recommend you use 60 days.

## **GAAP CONVERSION PROCEDURES**

### **JUNE 30, 1996 REQUIREMENTS:**

1. **QUESTION:** Could we get some guidelines as to exactly what needs to be done at the end of the fiscal year to comply with GAAP, such as some type of manual so everyone is consistent with journal entries? Could we get a list of GAAP requirements?

**ANSWER:** The Governmental Accounting Standards Board (GASB) is the highest source of GAAP for state and local governments. This Board issues GASB statements and interpretations that set accounting and financial reporting standards for state and local governments. These standards must be followed in order to be in compliance with GAAP. While there are other sources of GAAP pronouncements/requirements, we recommend two publications as the best sources:

1. GASB statements, which are considered authoritative and establish GAAP, are codified in the Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This codification is updated and re-issued annually and may be obtained by calling the Governmental Accounting Standards Board (GASB) at (203)847-0700. This is a paperback publication and the current cost is \$45. Since payment is expected with the order, you should call and request the customer service department to send you a pro forma invoice from which to pay. The GASB Codification will be revised in June, 1996, and the 1996 version will be available in August, 1996.
2. The most practical source for GAAP guidance is the Governmental Accounting, Auditing and Financial Reporting (GAAFR) publication, commonly known as the "blue book". While the GAAFR does not establish GAAP, it does provide a comprehensive overview of governmental accounting and financial reporting based upon authoritative guidance.

The GAAFR is composed of several chapters dealing with specific pertinent accounting and reporting issues discussed in a relatively user friendly format. In addition to the detailed discussion, each section provides the appropriate journal entries required. The GAAFR is available from Government Finance Officers Association (GFOA), 180 N. Michigan Avenue, Suite 800, Chicago, Illinois 60601.

2. **QUESTION:** What, if anything, needs to be done prior to June 30, 1996? Please provide a detailed and sequential outline of activities.

**ANSWER:** At June 30, 1996, districts should prepare Adjusting Journal Entries (AJE's) for all funds. These AJE's should be sufficiently detailed at the line item and fund level necessary to prepare the CAR and audit report at June 30, 1997 on a GAAP basis.

At June 30, 1996, balance sheets will be prepared and cash transactions will be reported for those districts that continue to maintain their accounting records on a non-GAAP (cash) basis throughout the year and convert to a GAAP basis

for financial reporting. However, detailed journal entries will be needed at June 30, 1996 even though only the balance sheet side of the entries will be posted.

Whether or not the operating statement AJE's are recorded or simply identified by listing these will depend on your software application. These AJE's will not affect your June 30, 1996 non-GAAP (cash) basis operating statement. They are, however, necessary at June 30, 1997 in order to "reverse" these for GAAP reporting at June 30, 1997.

Although you are not required to prepare AJE's at June 30, 1996, you are well advised to do so. It will be much more difficult, time-consuming and inevitably costly to wait to reconstruct this information at June 30, 1997 (one year later).

To illustrate, at June 30, 1996, for a non-GAAP (cash) basis district: Accounts payable will be determined for each fund for the balance sheet as it always has been done by identifying invoices or bills considered to be payables. Also needed for the detailed journal entry for payables is a breakdown of the payables by account number. The entry for accounts payable is a debit to the various expenditures and a credit to accounts payable. However, because cash transactions will be reported for June 30, 1996, the balance sheet side of the entry (accounts payable) is the only side which will be posted. Remember, however, the detailed account number breakdown is needed for reversing entries for June 30, 1997.

The accrual conversion process will be prepared by the District after June 30, 1996 by identifying and preparing various receivable and payable listings for each fund. Once the accrual information is prepared, the conversion process may begin by posting the accrual entries (for June 30, 1996, the balance sheet side of entry only). In subsequent years, the District will post the current year accrual entries as well as reversing entries (reverse of prior year accrual entries). Except for this accrual conversion period done after year-end, the District will maintain the accounting records as has been done in the past.

Remember that you should prepare and retain supporting documentation for your adjusting journal entries. The State Auditor's Office recommends that you establish a notebook to gather and retain this documentation for use by you and your independent auditors during the GAAP conversion process. The format of the detail and documentation should be developed in conjunction with your independent auditors.

3. **QUESTION:** At June 30, 1996, how do we handle salaries on 12-month pay which will begin September of 1996.

**ANSWER:** The District may continue to pay salaries over 12 months. However, at June 30 of each year, the District will need to determine the amount of salaries payable (salaries earned on or before June 30 but paid after June 30).

## **BUDGETING NON-GAAP (CASH) VERSUS GAAP**

1. **QUESTION:** What reasons can I give the Board to convince them we should also budget on GAAP?

**AOS ANSWER:** The SBRC decision on the GAAP Implementation Plan states that districts have the following options: (1) to budget and maintain their accounting records on a non-GAAP (cash) basis and prepare financial statements on a GAAP basis; (2) to budget and maintain their accounting records on a GAAP basis.

Based on this information, each district may choose whether to budget on a non-GAAP (cash) or GAAP basis. The budget basis which the district chooses will determine the basis for the calculation of their spending authority. If the district budgets on a non-GAAP (cash) basis, revenues (are not recorded until cash is received) and expenditures or expenses (are recorded when cash is disbursed) will be used to calculate their spending authority (this is the current practice). If a district budgets on a GAAP basis, accrued revenues and expenditures will be used in this calculation.

Once a district elects to budget on a GAAP basis, they can never go back to budgeting on a non-GAAP (cash) basis. Furthermore, in the initial year of budgeting on a GAAP basis, the district would need to have accumulated enough spending authority in the authorized budget to handle 14 months of salaries and will need to have included 14 months of salaries and other expenditures in the certified budget. This will not affect the number of months of expenditures the district will actually report on its Statement of Revenues, Expenditures and Changes in Fund Balances for the audit report or in its Certified Annual Report. These financial statements will report only 12 months. However, for budgeting purposes, the initial year of budgeting GAAP will require 14 months to be compared against the authorized and certified budgets. To illustrate, use the following information:

- Assume FY97 is the first year your district will budget GAAP
- FY 97 disbursements on a non-GAAP (cash) basis are \$100,000
- June 30 1996 payables, including salaries, were \$10,000
- June 30 1997 payables, including salaries, are \$12,000
- FY 97 expenditures on a GAAP basis for financial reporting, based on the above information, are :

<b>\$100,000</b>	<b>FY 97 non-GAAP (cash) basis disbursements (12 months)</b>
<b>(10,000)</b>	<b>6-30-96 payables (reversals - July/August 96 cash payments attributable to FY96)</b>
<b><u>12,000</u></b>	<b>6-30-97 payables (accruals - July/August 97 cash payments attributable to FY97)</b>
<b><u>\$102,000</u></b>	<b>FY 97 expenditures (GAAP basis) (12 months) - This is the amount of expenditures that will be reported in your financial statements and CAR.</b>

- The amount of expenditures that will be compared to your FY 97 GAAP budget are as follows:

**\$100,000** FY 97 non-GAAP (cash) basis disbursements (12 months)

**12,000** 6-30-97 payables (accruals - July/August 97 cash payments attributable to FY97)

**\$112,000** FY 97 expenditures (GAAP basis) (14 months) - This is the amount of expenditures that will be compared to your FY 97 GAAP budget.

If your district were to just compare the GAAP basis expenditures of \$102,000 to the budget in this initial year of budgeting GAAP, then the June 30, 1996 payables amount which was subtracted in order to calculate the GAAP basis expenditures will never be charged against a budget. They were never charged against the FY 96 budget because this was a non-GAAP (cash) basis budget and only actual cash disbursements through June 30, 1996 were charged against this budget. They also wouldn't be charged against the FY 97 budget because they are subtracted as illustrated above.

In order to comply with budgeting requirements of the Code of Iowa, all disbursements/expenditures must be charged against the budget at some point in time. Responsible fiscal oversight requires monitoring financial condition, certified budget compliance and authorized budget compliance.

## **UNSPENT BALANCE ISSUES**

1. **QUESTION:** The Board is really concerned about having a negative unspent balance when we go to GAAP. What can I tell them? They think all of a sudden we are now insolvent. What basis of accounting will be used to calculate spending authority at June 30, 1996?

**ANSWER:** There are several issues to address regarding GAAP and how it may affect the unspent balance. Spending authority/unspent balance are budgetary concepts, and, accordingly, the basis you elect for budgetary purposes could affect your unspent balance. GAAP reporting should not. The following options should be considered:

- If the district reports its revenues and expenditures on part 12, Election to Budget on a Different Basis than Report, of the CAR on the non-GAAP (cash) basis (and it has never reported them on the GAAP basis), then that district's unspent balance for fiscal 1996 will be calculated on the non-GAAP (cash) basis.
- If the district reports its revenues and expenditures on the CAR on the GAAP basis and the district does not complete Part 12 on the CAR on the non-GAAP (cash) basis, then that district's unspent balance for fiscal 1996 will be calculated on the GAAP basis.
- If the district reports its revenues and expenditures on the CAR on the GAAP basis and the district completes Part 12 on the CAR on the non-GAAP (cash) basis, then that district's unspent balance for fiscal 1996 will be calculated on the non-GAAP basis. The district must, in fact, use non-GAAP (cash) figures; it cannot use GAAP figures while marking the non-GAAP (cash) basis of budgeting on Part 12 (or in preparing the certified budget).

Districts should continue to budget on a non-GAAP (cash) basis until they have determined what effect budgeting on a GAAP basis will have on their district. As a minimum, the district should project its revenues and expenditures for a three to five year period calculating the effect on the unspent balance on both a GAAP and non-GAAP (cash) basis. Remember that once the district elects to budget GAAP, it may not return to a non-GAAP (cash) basis.

2. **QUESTION:** We do not have the cash nor is our authorized budget large enough to allow us to pay July and August contracts in June. What does that mean for us? Will that be a problem? What else can we do?

**ANSWER:** GAAP does not require districts to pay July and August contracts in June. When you pay these contract months is a local decision and should be addressed in the individual contracts. If your district does not pay July and August salaries in June, these will need to be included in your accruals at June 30 as salaries payable for financial reporting. These meet the criteria of a payable since the service to the district has been performed by June 30, but has not yet been paid by that date.

Regarding the authorized and certified budgets, your district can elect to continue budgeting on the non-GAAP (cash) basis, even though you must report on a GAAP basis for your Certified Annual Report (CAR) and audit report. This election is made in Part 12 of the CAR. If you elect to budget on



a non-GAAP (cash) basis, as discussed in the GAAP CONVERSION PROCEDURES: BUDGETING NON-GAAP (CASH) VERSUS GAAP section of this article, the salaries payable accruals will not affect your authorized or certified budgets.

3. **QUESTION:** If salary is expensed at June 30, should we date checks June 30 or July/August? Should we expense payroll taxes at June 30? Do these have to be remitted?

**ANSWER:** The District may continue to date and issue payroll checks in July and August. The related payroll taxes should be remitted at the time the checks are issued (July and August). The Internal Revenue Service recognizes the date on the check as the date from which it counts for timely deposits. Therefore, payroll deposits, including the district's share, would have to be remitted. The District should recognize the salaries paid in July and August as salaries payable (salaries earned on or prior to June 30, but paid after June 30). The associated district share of FICA and IPERS should also be recognized. The entry that would be made to record salaries payable is as follows:

- General fund entry:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expenditure	Various	\$ X,XXX	
Accrued Salaries			
and benefits	461		X,XXX
(To record salaries and the related benefits payable at June 30)			

4. **QUESTION:** If we remain on the non-GAAP basis of budgeting, can we issue a check for a bus in June to include in that year's budget even though the bus is not delivered until July or later?

**ANSWER:** The method by which a district budgets (either non-GAAP or GAAP) has no effect on when a district may or may not recognize (record) an expenditure for reporting purposes. On a GAAP basis, expenditures in governmental funds are recognized (recorded) as soon as a liability is incurred. On a non-GAAP basis, expenditures are recognized when the cash payment is made. In the case of a bus purchase, a liability has not been incurred until the district physically receives the bus, and accordingly, an expenditure cannot be recognized. Your remarks indicate your district may be using encumbrance accounting for budgetary purposes. Remember the encumbrance cannot be charged as an expenditure until the purchase order or contract is fulfilled.

5. **QUESTION:** When are lease-purchase agreements recognized (i.e., bus purchases)? What is the effect on spending authority?

**ANSWER:** GAAP basis: The lease-purchase proceeds are recognized GROSS when they are receivable. The equipment is recognized when it is payable. The expenditures for principal and interest are recognized when payable.

Non-GAAP basis: The lease-purchase proceeds are recognized when the transaction occurs/received (not necessarily by the district directly). The equipment is recognized when the expenditure is disbursed (not necessarily by

**the district directly). The expenditures for principal and interest are recognized when disbursed.**

**The effect on spending authority would depend on the budget basis you elect.**

## INVENTORIES:

1. **QUESTION:** Do we have to do an inventory of supplies on hand on June 30?

**ANSWER:** GAAP requires that material balances of inventory on hand be reported on the balance sheet. Districts should consult their auditors in determining the materiality of the supplies inventory at June 30.

Most supplies inventories would be reported in the governmental funds, including the General Fund and/or the Special Revenue, Student Activity Fund, if material. GAAP allows entities to record inventories in governmental funds using one of two methods:

1. Purchases Method - Inventories are recorded as expenditures when acquired (purchased). This method requires the Fund Balance be reserved for inventories on hand since the amount does not represent "available, spendable resources".
2. Consumption Method - Inventories are recorded as expenditures when used. This method does not require a reservation of Fund Balance unless minimum amounts of inventory must be maintained and thus are not available for use (expenditure).

Entries to record material supplies inventories under both the purchases and consumption methods are as follows: (assuming district maintains records on a non-GAAP (cash) basis during the year and converts to a modified accrual basis for financial reporting.)

We have also provided alternative journal entries depending on your software and/or preference. Note, however, that the net effect is the same.

### PURCHASES METHOD:

- The value of the supplies inventory on hand is as follows:
  - June 30, 1997      \$10,000      Assume this is the first year inventory is reported
  - June 30, 1998      \$15,000
  - June 30, 1999      \$ 9,000
- The following entry would be made at various times supplies are purchased throughout the year from the General Fund:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expenditure	610	\$ XXX	
Cash	101		XXX
(To record purchase of supplies at the time of purchase)			

- The following entries would be made at the end of each year during the GAAP conversion process to record the supplies inventory:

- June 30, 1997 (1st year recording inventory):

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventories	171	\$ 10,000	
Reserve for inventories	751		10,000
(To record supplies inventory at 6-30-97)			

NOTE: The District may choose either of the following ways to record inventory in subsequent years. (it may depend on the computer software utilized by the District)

- June 30, 1998:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventories	171	\$ 5,000	
Reserve for inventories	751		5,000
(To record <u>increase</u> of supplies inventory at 6-30-98 - assumes the 6-30-97 amount is left on the balance sheet as a beginning amount and a journal entry is made to adjust the 6-30-97 inventory up to the 6-30-98 balance)			

OR

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Reserve for inventories	751	\$ 10,000	
Inventories	171		10,000
(To reverse the 6-30-97 supplies inventory off the balance sheet)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventories	171	\$ 15,000	
Reserve for inventories	751		15,000
(To record the 6-30-98 supplies inventory)			

- June 30, 1999:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Reserve for inventories	751	\$ 6,000	
Inventories	171		6,000
(To record <u>decrease</u> of supplies inventory at 6-30-99 - assumes the 6-30-98 amount is left on the balance sheet as a beginning amount and a journal entry is made to adjust the 6-30-98 inventory down to the 6-30-99 balance)			

OR

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Reserve for inventories	751	\$ 15,000	
Inventories	171		15,000
(To reverse the 6-30-98 supplies inventory off the balance sheet)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 9,000	
Reserve for inventories	751		9,000
(To record the 6-30-99 supplies inventory)			

**CONSUMPTION METHOD:** (Note - we have not reserved the fund balance using this method since it is not common to do so)

- The value of the supplies inventory on hand is as follows:
  - June 30, 1997      \$10,000      Assume this is the first year inventory is reported
  - June 30, 1998      \$15,000
  - June 30, 1999      \$ 9,000
- The following entry would be made at various times supplies are purchased throughout the year from the General Fund:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Supply expenditures	610	\$ XXX	
Cash	101		XXX
(To record purchase of supplies at the time of purchase)			

- The following entries would be made at the end of each year during the GAAP conversion process to record the supplies inventory in the General Fund:
  - June 30, 1997 (1st year recording inventory):

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 10,000	
Supply expenditures	610		10,000
(To record supplies inventory at 6-30-97)			

**NOTE:** The District may choose either of the following ways to record inventory in subsequent years. (it may depend on the computer software utilized by the District)

- June 30, 1998:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 5,000	
Supply expenditures	610		5,000
(To record supplies inventory at 6-30-98 - assumes the 6-30-97 amount is left on the balance sheet as a beginning amount and only a journal entry is made to adjust the 6-30-97 inventory up to the 6-30-98 balance)			

OR

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Supply expenditures	610	\$ 10,000	
Inventories	171		10,000
(To reverse the 6-30-97 supplies inventory off the balance sheet)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 15,000	
Supply expenditures	610		15,000
(To record the 6-30-98 supplies inventory)			

- June 30, 1999:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Supply expenditures	610	\$ 6,000	
Inventories	171		6,000
(To record supplies inventory at 6-30-99 - assumes the 6-30-98 amount is left on the balance sheet as a beginning amount and a journal entry is made to adjust the 6-30-98 inventory down to the 6-30-99 balance.)			

OR

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Supply expenditures	610	\$ 15,000	
Inventories	171		15,000
(To reverse the 6-30-98 supplies inventory off the balance sheet)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 9,000	
Supply expenditures	610		9,000
(To record the 6-30-99 supplies inventory)			

2. **QUESTION:** Are we required to record supplies inventories, purchased food and commodities on hand at June 30 on the balance sheet, and if so, how do we do this?

**ANSWER:** Districts are required to record the value of their purchased food and commodities inventories on hand at June 30 on the balance sheet, regardless of materiality. Other supplies inventories, such as paper products, should be recorded, if material.

These inventories should be recorded in the Enterprise, School Nutrition Fund which is a proprietary fund type. Unlike governmental funds where GAAP allows entities to record inventories using either the purchases method or consumption method, proprietary funds are required to record inventories using the consumption method.

**PURCHASED FOOD INVENTORY:**

The value of the purchased food inventory is as follows:

- June 30, 1997      \$2,000      Assume this is the first year inventory is reported
- June 30, 1998      \$3,000
- June 30, 1999      \$1,000

The following entry would be made at various times food is purchased throughout the year from the School Nutrition Fund:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expense	3100-630	\$ XXX	
Cash	101		XXX
(To record purchase of food supplies at the time of purchase)			

The following entries would be made at the end of each year during the GAAP conversion process to record the purchased food on hand at June 30:

- June 30, 1997

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 2,000	
Expense	3100-630		2,000
(To record purchased food inventory at 6-30-97)			

**NOTE:** The District may choose either of the following ways to record inventory in subsequent years. (it may depend on the computer software utilized by the District)

- June 30, 1998

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 1,000	
Expense	3100-630		1,000
(To record the <u>increase</u> of purchased food inventory at 6-30-98 from the prior year)			

OR

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expense	3100-630	\$ 2,000	
Inventory	171		2,000
(To reverse the 6-30-97 purchased food inventory off the balance sheet)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 3,000	
Expense	3100-630		3,000
(To record the 6-30-98 purchased food inventory)			

• June 30, 1999

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expense	3100-630	\$ 2,000	
Inventory	171		2,000
(To record the <u>decrease</u> of purchased food inventory at 6-30-99 from the prior year)			

OR

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expense	3100-630	\$ 3,000	
Inventory	171		3,000
(To reverse the 6-30-97 purchased food inventory off the balance sheet)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 1,000	
Expense	3100-630		1,000
(To record the 6-30-98 purchased food inventory)			



**COMMODITIES INVENTORY:**

	<u>Commodities Received During Year</u>	<u>Inventory End of Year</u>	<u>Inventory Increase (Decrease)</u>
• June 30, 1996		2,000	-
• June 30, 1997	\$50,000	5,000	3,000
• June 30, 1998	52,000	4,000	(1,000)
• June 30, 1999	53,000	6,000	2,000

The following entries would be made at the end of each year during the GAAP conversion process to record the commodities received, used and on hand at June 30:

- June 30, 1997

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$3,000	
Expense	3100-630	47,000	
Revenue	4951		50,000
(To record commodities received, used and increase in commodities on hand at 6-30-97)			

- June 30, 1998

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expense	3100-630	53,000	
Inventory	171		1,000
Revenue	4951		52,000
(To record commodities received, used and decrease in commodities on hand at 6-30-98)			

- June 30, 1999

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Inventory	171	\$ 2,000	
Expense	3100-630	51,000	
Revenue	4951		53,000
(To record commodities received, used and increase in commodities on hand at 6-30-99)			

## **FIXED ASSETS/LONG-TERM DEBT**

1. **QUESTION:** We are adding room(s) to some of our buildings. We are borrowing the money from the bank as needed. (It will take us 3-4 years to pay for those additions). When it comes time to make a payment to the contractor, what are the entries? Do I transfer from PPEL to Capital Projects and pay out of Capital Projects? Do I have to be concerned with the General Long-Term Debt Account Group (GLTDAG)?

**ANSWER:** Iowa Code requires that major capital projects for facilities be accounted for in a Capital Projects fund. The proceeds from the bank loan should be credited to the Special Revenue, PPEL fund and then transferred to the Capital Projects fund. If the non-voted PPEL levy is funding a portion of the project, in addition to a loan in anticipation of future tax collections from the voter-approved PPEL, this too should be transferred from the PPEL fund to the Capital Projects fund. Payments made to the contractor would then be made directly from the Capital Project fund. However, repayment of the bank loan should be made from the Debt Service fund, with funds transferred from the PPEL fund for this purpose.

The entries to record all the transactions related to this project are as follows (assuming the district maintains non-GAAP (cash) records throughout the year and converts to GAAP for financial reporting and assuming the project is funded partially through the bank loan and partially from non-voted PPEL funds):

- Capital Project fund entries:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Cash in bank	101	XX,XXX	
Interfund transfers	5200		XX,XXX
(To record the transfer of funds from the PPEL fund to Capital Projects)			
Expenditure account	4000-450	\$ XX,XXX	
Cash in bank	101		XX,XXX
(To record the cash payments to the contractor)			

The above entries would be made at the time of the transfer from the PPEL fund and payment to the contractor.

- **PPEL fund:**

Cash in bank	101	\$ XX,XXX	
Loan proceeds	5400		XX,XXX

(To record the cash received from the bank loan)

Interfund transfers	5200-930	XX,XXX	
Cash in bank	101		XX,XXX

(To record the transfer of funds from the PPEL fund to Capital Projects)

Interfund transfers	5200-930	X,XXX	
Cash in bank	101		X,XXX

(To record the transfer of funds from the PPEL fund to Debt Service)

The above entries would be made at the time of receipt of the bank loan proceeds and the transfers to the Capital Projects and Debt Service funds.

- **Debt Service Fund entries:**

Cash in bank	101	X,XXX	
Interfund transfers	5200		X,XXX

(To record the transfer of funds from the PPEL fund to the Debt Service fund)

Principal redemption	5100-910	\$ X,XXX	
Interest expenditure	5100-830	XXX	
Cash in bank	101		XXX

(To record the payment of principal and interest on the bank loan in years subsequent to the initial borrowing)

The above entries would be made at the time of the transfer from the PPEL fund and the actual payment of principal and interest.

- **General Long-Term Debt Account Group (GLTDAG) entry:**

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Amount to be provided	304	\$ XX,XXX	
Loan payable	521		XX,XXX

(To record the bank loan liability in the year of borrowing)

  

Loan payable	521	\$ X,XXX	
Amount to be provided...	304		X,XXX

(To record the reduction in the bank loan liability each year)

- General Fixed Asset Account Group (GFAAG) entry:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Buildings and building improvements	231	\$ XX,XXX	
Investment in general fixed assets	711		XX,XXX
(To record the building improvements in the GFAAG)			

The above entries in the GLTDAG and the GFAAG would be made during the GAAP conversion process.

2. QUESTION: What entry do I make each time I purchase a piece of equipment that is to be added to our fixed asset inventory?

ANSWER: The entry you make and the funds/account groups affected will depend on whether the asset will be recorded in the general fixed asset account group (GFAAG) or in an enterprise fund (i.e., school nutrition). We will try to illustrate both.

GFAAG - assume the General, PPEL, PERL, capital projects or any other governmental fund purchases a piece of equipment for \$2,000. The following entries would need to be recorded in the governmental fund making the purchase and in the GFAAG (assume the district budgets and maintains records on a non-GAAP (cash) basis throughout the year and converts to GAAP for financial reporting):

- Governmental fund entry:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expenditure account	Various	\$ 2,000	
Cash in bank	101		2,000
(To record the cash payment for equipment purchased)			

The above entry would be made at the time of purchase.

- General Fixed Asset Account Group (GFAAG) entry:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Machinery and Equipment	241	\$ 2,000	
Investment in GFA	711		2,000
(To record the fixed asset addition in the GFAAG)			

The above entry would be made during the GAAP conversion process.

**ENTERPRISE FUND - Assume the School Nutrition Fund purchases a piece of equipment on January 1 for \$2,000. The equipment has an estimated useful life of 5 years and the District uses the straight-line method of depreciation. The following entries would need to be recorded in the School Nutrition Fund to record the purchase and to add the asset to the enterprise fund fixed assets (assume the district budgets and maintains records on a cash basis throughout the year and converts to GAAP for financial reporting):**

- **School Nutrition Fund entries:**

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Equipment expense	3100-731	\$ 2,000	
Cash in bank	101		2,000
(To record the cash payment for equipment purchased)			

The above entry would be made at the time of purchase.

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Machinery and Equipment	241	\$ 2,000	
Equipment expense	3100-731		2,000
(To capitalize the fixed asset purchased to the School Nutrition Fund fixed assets)			

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Depreciation expense	740	\$ 200	
Accumulated. depreciation	242		200
(To record depreciation expense on asset at $\$2,000/5 * 1/2$ year)			

The above entries would be made during the GAAP conversion process.

Note that the equipment purchased from the enterprise fund is not recorded in the general fixed asset account group. This account group is used to record fixed assets of governmental fund types only, not proprietary fund types.

3. **QUESTION:** Our prior Board Secretary used replacement costs when reporting fixed assets on the Certified Annual Report (CAR). Since historical costs will probably be considerably less, would it be advisable to include an explanation when submitting the CAR with the revised figures?

**ANSWER:** Yes, it would be advisable to include an explanation with the CAR, addressed to Mary Bingaman, regarding the variance in the fixed assets amount reported on the CAR at June 30, 1996 (replacement cost) and the amount reported at June 30, 1997 (historical cost).

4. **QUESTION:** What if the General Fund purchases a piece of equipment for the School Nutrition Fund? How and where would this fixed asset be recorded?

**ANSWER:** If the equipment belongs to the school nutrition program, then it should be recorded as an asset in the School Nutrition fund rather than in the General Fixed Asset Account Group (GFAAG). The following entries would be

made in the General and School Nutrition funds to record the transactions related to this fixed asset purchase:

- General Fund entry:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Expenditure account	Various	\$ 2,000	
Cash in bank	101		2,000
(To record the cash payment for equipment purchased)			

The above entry would be made at the time of purchase.

- School Nutrition Fund entry:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Machinery and Equipment	241	\$ 2,000	
Contributed Capital	721		2,000
(To record the fixed asset addition in the School Nutrition Fund)			

The above entry would be made during the GAAP conversion process.

The Contributed Capital account is an equity account on the balance sheets of proprietary funds. This account is credited whenever assets are "transferred" from another fund to the proprietary fund.

5. **QUESTION:** Should computer software and software updates be included in the district's general fixed asset or enterprise asset reporting?

**ANSWER:** Computer operating system software and application software should be included in fixed assets. However, updates or enhancements to the software would not be included since they are maintenance of the original software.

The Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) states that "The cost of a fixed asset includes not only its purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use." Computer hardware would not be in "condition for use" if there were no computer software.

With respect to the software updates or enhancements, these costs are not a component of the cost of equipment. Software may become obsolete with advances in technology and operational changes requiring updates and enhancements. These would be costs of maintaining original software and would be a maintenance expenditure.

However, be careful about confusing correct reporting in the GFAAG with correct account coding on the books for expenditures. Software is a supply and hardware is equipment for expenditure account coding purposes and for determining the appropriate fund to use for the purchase.

6. **QUESTION:** The Bureau of School Nutrition requires School Nutrition fund equipment to be deleted from the equipment inventory listing after 12 years for reporting on the CNP-2. How does this affect our reporting for our Enterprise, School Nutrition fund fixed assets?

**ANSWER:** In accordance with GAAP, these items should be included in the Enterprise, School Nutrition fund fixed asset listing at historical cost until disposition.

7. **QUESTION:** When the kitchen is a part of the school building that is reported in the General Fixed Asset Account Group (GFAAG), is it necessary to allocate the portion of the building cost associated with the kitchen to the enterprise fund fixed assets?

**ANSWER:** No, it is not necessary to allocate the portion of a school building used as a kitchen to the enterprise fund fixed assets. This is because the kitchen is simply a part of the building belonging to the school, as a whole, and the four walls creating the kitchen are of no value in and of themselves. The entire school building should be recorded at cost as an asset in the General Fixed Asset Account Group. However, all equipment located in the kitchen should be reported as an asset of the Enterprise, School Nutrition Fund.

8. **QUESTION:** If the district enters into a lease-purchase agreement under Chapter 279.48 of the Code of Iowa, what are the correct entries to make for the payment of principal and interest on this debt?

**ANSWER:** Chapter 279.48 of the Code of Iowa does not allow Districts to enter into lease-purchase agreements, but rather, allows Districts to enter into loan agreements and issue notes to pay for equipment. The Code requires the note payments be made from the debt service fund, not the debt service levy. Therefore, transfers must be made from the fund paying for the equipment, the General Fund in this case, to the debt service fund.

For budgeting purposes, the district would need to budget an operating transfer in from the General Fund and principal and interest expenditures in the Debt Service Fund. The General fund would budget an operating transfer out which is not an expenditure for certified budget purposes. The operating transfer out to the Debt Service Fund is an expenditure for authorized budget purposes.

For illustration, we will assume the original note amount of \$40,000 was entered into during FYE 6-30-X1. The following entries would be made during the fiscal years ended June 30, 19X1 and 19X2 to record the transactions related to the issuance of the debt and payment on the note and to record the liability :

- General fund entries made during FYE 6-30-X1:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Cash in bank	101	\$ 40,000	
Loan proceeds	5400		40,000
(To record the receipt of loan proceeds in the General Fund)			
Expenditures	732	\$ 40,000	
Cash in bank	101		40,000
(To record the purchase of the equipment)			

- General fund entry made during FYE 6-30-X2:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Fund transfers	5200-930	\$ 12,000	
Cash in bank	101		12,000
(To record the transfer to the debt service fund for payment of principal and interest on the note)			

- Debt Service Fund entries made during FYE 6-30-X2:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Cash in bank	101	\$ 12,000	
Interfund transfers	5200		12,000
(To record transfer in from the General fund)			
Expenditure-Principal	5100-910	\$ 10,000	
Expenditure-Interest	5100-830	2,000	
Cash in bank	101	12,000	
(To record the payment of principal and interest on the note due during FYE 6-30-X2)			

- General Long-term Debt Account Group entries:

	<u>Account #</u>	<u>Debit</u>	<u>Credit</u>
Amount to be provided	304	\$ 40,000	
Loan payable	521		40,000
(To record the initial loan payable at FYE 6-30-X1)			
Loan payable	521	\$ 10,000	
Amount to be provided	304		10,000
(To record the reduction of liability by the principal amount paid during FYE 6-30-X2)			

The above entries would be made during the GAAP conversion process.



## **ACTIVITY FUND**

1. **QUESTION:** There has been a lot of discussion regarding the Activity Fund's compliance with GAAP. Is there a date when we must begin having Board approval prior to the checks being sent out?

**ANSWER:** It is not generally accepted accounting procedures (GAAP) which requires the approval of Student Activity Fund disbursements but rather the fact that these funds are public funds. Public funds may only be spent for a public purpose. Various opinions of the Attorney General specifically indicate that public monies may be spent only for the public benefit. The March 1995 School Business Alert discusses the activity funds and the fact that they are, and always have been "public funds". This Alert states that "public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, segregation of duties, publishing, bonding, investing, Uniform Financial Accounting, GAAP, etc". Accordingly, the Activity Fund bills should have always been included for Board approval.

2. **QUESTION:** Are there any suggestions for what to do about the registrations for the Iowa High School Associations? This is one aspect that will affect every school district. They currently WILL NOT accept purchase orders and the time line will not usually fit into a board meeting situation. We will have the same problems with officials, especially when there is a change from the contract or when there is a make-up or extra game scheduled.

**ANSWER:** Chapter 279.30 of the Code of Iowa states that "The board of directors of a school district or an area education agency may by resolution authorize the secretary or administrator, in the case of an area education agency, to issue warrants when the board of directors is not in session in payment of freight, drayage, express, postage, printing, water, light, and telephone rents...and for the payment of salaries pursuant to the terms of a written contract..." This chapter goes on to state, "In addition, the board of directors may by resolution authorize the secretary or administrator, upon approval of the president of the board, to issue warrants when the board of directors is not in session, but only upon verified bills filed with the secretary or administrator..."

### **Registrations:**

Registrations are not included in those specific items identified in Chapter 279.30 of the Code of Iowa which may be paid prior to board approval. However, if the board has adopted a resolution authorizing the secretary or administrator, upon approval of the board president, to issue warrants when the board is not in session, registrations could be paid pursuant to this resolution.

If the school district is unable to obtain a verified bill from which to pay, the Department of Education has the following suggested procedure regarding registrations.

1. Have the board establish a policy regarding what happens if refunds cannot be issued and the participant does not attend.

2. Have the sponsor list the participants registering with the amount certain on a requisition form attached to registration information from the association showing registration fees.
3. Issue a purchase order for this amount using your regular procedures.
4. Obtain the board president's approval to pay, upon review of the registration materials.
5. Issue the check.
6. Have the board allow the disbursement at its next meeting.

**Payments to officials:**

Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30, officials could be paid the night of the game, after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The district should have a policy and officials should be informed that payment will be made in this manner unless a valid contract exists.

Employees of the district that officiate should be paid with the regular payroll.

4. **QUESTION:** Is it permissible to use the same software that we currently use for the activity fund, keeping track of expenditures by object, and then incorporate the needed adjustments at the end of the year?

**ANSWER:** This is hard to answer without seeing the current software. In general, the system must record revenues by source. The system must record expenditures by function, program, project and object. If the district has removed all inappropriate accounts from the Special Revenue, Student Activity fund, all functions should be 1400, all programs should be 400, and there should be no projects other than those assigned by the district. In that case, keeping track of expenditures by object would be satisfactory. The system must include a balance sheet. Items required to be placed on the balance sheet such as interfund loans, petty cash fund creation, change fund creation, etc. **MUST NOT** be recorded in revenue or expenditure accounts. Transfers between activities within the Special Revenue, Student Activity fund **MUST NOT** be recorded as revenues or expenditures. These are recorded using accounts and contra-accounts under other financing uses using object code 950.

Making adjustments at fiscal year end would not be acceptable. The district secretary is required to report all funds monthly to the board. This includes the Special Revenue, Student Activity fund.

I don't know that this would be a simplified system. It would have a shorter account code for each account, but it would have exactly the same number of accounts in the chart of accounts. The only real difference would be report presentation, and that is a matter of sorting the UFA system differently. How a district sorts its accounts for reporting is determined locally.